

**R E P O R T**

**CANAL STREET DEVELOPMENT CORPORATION**  
**(A Component Unit of the City of New Orleans, Louisiana)**

**DECEMBER 31, 2011 AND 2010**

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date **JUN 13 2012**

**CANAL STREET DEVELOPMENT CORPORATION**

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## INDEPENDENT AUDITOR'S REPORT

May 4, 2012

To the Board of Directors  
Canal Street Development Corporation  
New Orleans, Louisiana

We have audited the accompanying statements of financial position of Canal Street Development Corporation, a component unit of the City of New Orleans, State of Louisiana, a nonprofit organization under Internal Revenue Service Code Section 501(c)(3), as of and for the years ended December 31, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of Canal Street Development Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contain in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Canal Street Development Corporation as of December 31, 2011 and 2010, and the changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The schedule of functional expenses on page 43 is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of schedule of expenditures of federal awards on page 49 is presented for purposes of additional analysis as required by U S Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 4, 2012, on our consideration of Canal Street Development Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Duplantier, Hrapmann, Hogan & Maher, LLP*

CANAL STREET DEVELOPMENT CORPORATION  
STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2011 AND 2010

ASSETS

	<u>2011</u>	<u>2010</u>
<b>CURRENT ASSETS</b>		
Cash	\$ 7,052,666	\$ 6,850,901
Accounts receivable	229,845	183,713
Loan receivable	13,156,422	1,834,794
Accrued interest receivable	-	11,755
Prepaid expenses	-	720
Due from the City of New Orleans	506,000	506,000
Due from New Orleans Building Corporation	<u>2,000,000</u>	<u>-</u>
 Total current assets	 <u>22,944,933</u>	 <u>9,387,883</u>
<b>FIXED ASSETS</b>		
<b>Unrestricted</b>		
Land	2,699,000	-
Building	<u>6,523,578</u>	<u>1,843,578</u>
	9,222,578	1,843,578
Less accumulated depreciation	<u>(112,423)</u>	<u>(55,152)</u>
 Total fixed assets-unrestricted	 9,110,155	 1,788,426
<b>Restricted</b>		
Land	896,124	896,124
Building	7,619,246	7,619,246
Leasehold improvements	<u>445,713</u>	<u>445,713</u>
	8,961,083	8,961,083
Less. accumulated depreciation	<u>(3,455,184)</u>	<u>(3,249,650)</u>
 Total fixed assets-restricted	 5,505,899	 5,711,433
 Total fixed assets	 <u>14,616,054</u>	 <u>7,499,859</u>
 <b>TOTAL ASSETS</b>	 <u><u>\$ 37,560,987</u></u>	 <u><u>\$ 16,887,742</u></u>

See accompanying notes.

LIABILITIES AND NET ASSETS

	<u>2011</u>	<u>2010</u>
<b>CURRENT LIABILITIES</b>		
Accrued liabilities	\$ 36,978	\$ 63,047
Security deposit payable	10,000	10,000
Due to the City of New Orleans	<u>63,716</u>	<u>72,795</u>
 Total current liabilities	 <u>110,694</u>	 <u>145,842</u>
 <b>NET ASSETS:</b>		
Unrestricted	31,944,394	11,030,467
Temporarily restricted	<u>5,505,899</u>	<u>5,711,433</u>
 Total net assets	 <u>37,450,293</u>	 <u>16,741,900</u>
 <b>TOTAL LIABILITIES AND NET ASSETS</b>	 <b>\$ <u>37,560,987</u></b>	 <b>\$ <u>16,887,742</u></b>

CANAL STREET DEVELOPMENT CORPORATION  
STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<b>UNRESTRICTED NET ASSETS</b>		
Unrestricted revenues and other support		
Program service fees	\$ 1,376,018	\$ 1,298,985
Property donations	7,379,000	-
Interest income	13,472	25,929
Federal grant	13,156,422	-
Net assets released from restriction	<u>205,534</u>	<u>205,534</u>
Total unrestricted revenues and other support	<u>22,130,446</u>	<u>1,530,448</u>
 Expenses		
Program expenses	1,057,433	1,017,219
General and administrative expenses	<u>159,086</u>	<u>164,074</u>
Total expenses	<u>1,216,519</u>	<u>1,181,293</u>
 Increase in unrestricted net assets	<u>20,913,927</u>	<u>349,155</u>
 <b>TEMPORARILY RESTRICTED NET ASSETS</b>		
Net assets released from restrictions	<u>(205,534)</u>	<u>(205,534)</u>
 Decrease in temporarily restricted net assets	<u>(205,534)</u>	<u>(205,534)</u>
 INCREASE IN NET ASSETS	20,708,393	143,621
 NET ASSETS, BEGINNING OF YEAR	<u>16,741,900</u>	<u>16,598,279</u>
 NET ASSETS, END OF YEAR	<u>\$ 37,450,293</u>	<u>\$ 16,741,900</u>

See accompanying notes

**CANAL STREET DEVELOPMENT CORPORATION**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase in net assets	\$ <u>20,708,393</u>	\$ <u>143,621</u>
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	262,805	252,805
Donation of land and building	(7,379,000)	-
(Increase) decrease in		
Accounts receivable	(46,132)	(55,684)
Interest receivable	11,755	(9,017)
Prepaid expenses	720	(720)
Due from the New Orleans Building Corporation	(2,000,000)	-
Increase (decrease) in operating liabilities:		
Accrued liabilities	(26,069)	6,555
Due to the City of New Orleans	(9,079)	(133,441)
Net cash provided by operating activities	<u>11,523,393</u>	<u>204,119</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Loan to STRC	-	(563,128)
Loan to Saenger Aggregator Leverage Lender	(13,156,422)	-
Collections on loan to STRC	1,834,794	-
Net cash used in investing activities	<u>(11,321,628)</u>	<u>(563,128)</u>
<b>NET (INCREASE) DECREASE IN CASH AND CASH EQUIVALENTS</b>	201,765	(359,009)
<b>Cash and cash equivalents - beginning of year</b>	<u>6,850,901</u>	<u>7,209,910</u>
<b>CASH - END OF YEAR</b>	\$ <u><u>7,052,666</u></u>	\$ <u><u>6,850,901</u></u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash paid during the year for		
Interest	\$ <u><u>-</u></u>	\$ <u><u>-</u></u>
Noncash investing activities:		
Donation of land and building	\$ <u><u>7,379,000</u></u>	\$ <u><u>-</u></u>

See accompanying notes

CANAL STREET DEVELOPMENT CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010

NATURE OF ACTIVITIES

Canal Street Development Corporation ("Organization" or "CSDC") is a nonprofit, public benefit corporation which was formed on August 8, 1989 under the Internal Revenue Code Section 501(c)(3). The Organization's main assets consist of the donation of the building known as the D H Holmes Building located in the 800 block of Canal Street, New Orleans, Louisiana ("Building"), the real property known as the D H Holmes Annex, and a parking garage. The Building was developed into the Chateau Sonesta Hotel ("Hotel") comprised of separate dwelling units and commercial retail space, and the D H Holmes Annex was developed into an 87-unit apartment complex. The Organization was established for the sole and exclusive purpose of stimulating business development in the Central Business District and the adaptive reuse and development of Canal Street for commercial purposes. This objective is currently being met through renovations and the leasing of donated real estate and economic development endeavors downtown. Canal Street Development Corporation is a proprietary activity which is reported as a component unit in the separate financial statements of the City of New Orleans, Louisiana. The Organization's Board of Directors is comprised of two Councilmen from the City Council and other Board Members that are appointed by the Mayor of the City of New Orleans, Louisiana.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Accounting.

The Organization uses the accrual basis of accounting.

Promises to Give

Contributions are recognized when the donor makes a promise to give to the Organization, that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Contributions

The Organization adopted Accounting Standards Codification (ASC) 958-605, *Accounting for Contributions Received and Contributions Made* in 1995. In accordance with ASC 958-605, contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence or nature of any donor restrictions. Under ASC 958-605, donor restricted contributions previously unreported are required to be reported as temporarily restricted support and are then reclassified to unrestricted net assets upon expiration of the donor restrictions.

CANAL STREET DEVELOPMENT CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
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1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Property and Equipment.

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use are reported as restricted contributions. CSDC's fixed assets are temporarily restricted by the act of the donation agreement between D.H. Holmes and the Organization. The agreement states that the donee transferred title exclusively for public purposes. These include maintenance of the property, promotion of social welfare, combating community deterioration, increasing employment opportunities, increasing tourism and enhancing tourist amenities on Canal Street, and preserving and improving the historic and unique aesthetic quality of the Canal Street area. Donated property and equipment are depreciated using the straight line method over the estimated useful life of the asset. CSDC reclassifies temporarily restricted net assets to unrestricted net assets each year for the amount of depreciation expense relating to the donated property and equipment.

All acquisitions of property and equipment in excess of \$500 and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Purchased property and equipment are carried at cost. Depreciation is provided using the straight line method over the estimated useful lives of the assets as follows:

Buildings	39 years
Leasehold Improvements	39 years
Furniture and Fixtures	10 years
Office Equipment	5 years

Depreciation expense for the years ended December 31, 2011 and 2010 was \$262,805 and \$252,805, respectively. Depreciation expense in the amount of \$205,534 and \$205,534 for the years ended December 31, 2011 and 2010, respectively, was reclassified from restricted net assets to unrestricted net assets.

Functional Expenses.

Expenses are charged directly to program expenses and management and administrative based on specific identification.

CANAL STREET DEVELOPMENT CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation

The Organization's financial statements comply with Accounting Standards Codification (ASC) 958, *Financial Statements for Not-for-Profit Organizations*. Under ASC 958, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Organization is required to present a Statement of Cash Flows.

Income Taxes

The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

2. PENSION PLAN:

The Organization's employees participate in the Employees' Retirement System of the City of New Orleans (Plan).

Plan Membership.

The Employees' Retirement System of the City of New Orleans covers all City employees except for fire and police employees.

Plan Description

The Employees' Retirement System of the City of New Orleans, a single-employer defined benefit pension plan is controlled and administered by a separate Board of Trustees. The Plan covers all employees of Canal Street Development Corporation. The Plan provides retirement, deferred and disability benefits, survivor benefits and cost of living adjustments to plan members and beneficiaries. The Board issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. The financial report for the Plan may be obtained by writing to The Employees' Retirement System of the City of New Orleans, 1300 Perdido Street, New Orleans, Louisiana 70131.

CANAL STREET DEVELOPMENT CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010

2 PENSION PLAN (Continued)

Basis of Accounting

The financial statements of the Plan are prepared using the accrual basis of accounting whereby revenues are recognized when they are earned and expenses are recognized when incurred. Contributions are recognized as revenue in the period in which employee services are performed. Interest income is recognized in the period earned and dividends are recognized in period declared.

Funding Policy

Plan members are required to contribute 4% of their annual covered salary in excess of \$1,200. At December 31, 2011 and 2010, participant contributions totaled \$3,861 and \$4,412, respectively. CSDC is required to contribute at an actuarially determined rate. The current rate is 23.814% of annual covered payroll. The actual employer rate contributed at December 31, 2011 was 21.645%. The contribution requirement of plan members and CSDC are established and may be amended by state statute.

Annual Pension Cost

The annual pension cost and the net pension obligation for the Plan is calculated yearly; however, the annual pension cost and the net pension obligation for the CSDC is not separately reported. The contributions made by CSDC to the Plan for the years ending December 31, 2011 and 2010 was \$21,236 and \$21,789, respectively. The annual required contributions for the current year was determined as part of the December 31, 2010 actuarial valuation using Entry Age Normal Cost Method with Unfunded Actuarial Accrued Liability. Under this method, normal cost of the plan is designed to be a level percentage of payroll; calculated on an aggregate basis, spread over the entire working lifetime of the participants.

Significant actuarial assumptions used in the valuation include: 1) rate of return on the investment of present and future assets of 7.75% compounded annually and 2) projected salary increases based on U.S. Department of Commerce adjusted for increases in standard of living. The actual value of assets is set equal to an adjusted market value of assets.

The percentage of the ARC contributed for the year ended December 31, 2011 for CSDC is not available. The Schedule of the ARC and percentage contributed for CSDC for the years ended December 31, 2010 and 2009 is noted below.

CANAL STREET DEVELOPMENT CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010

2 PENSION PLAN (Continued)

Annual Pension Cost (Continued)

Schedule of Employer Contributions

<u>Fiscal Year Ended</u>	<u>Annual Required Contribution (ARC)</u>	<u>Percentage of ARC Contributed</u>
12-31-09	\$ 7,657	74%
12-31-10	34,813	61%

Schedule of Funding Progress for the Plan  
(Amount in Thousands)

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u> (a)	<u>Actuarial Accrued Liability (AAL)</u> (b)	<u>Percent Funded by Employer</u> (c)	<u>Unfunded AAL (UAAL)</u> (d)	<u>Covered Payroll</u> (e)	<u>UAAL as a Percentage of Covered Payroll</u> (d/e)
01-01-10	387,146	478,552	80 90%	91,406	89,366	102 28%
01-01-11	384,106	485,221	79 16%	101,115	85,927	117 68%

The Schedule of Employer Contributions and Schedule of Funding Progress for the year ended December 31, 2011 were not available. The Schedule of Funding Progress located above presents multi-year trend information regarding whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

3. PROGRAM SERVICE FEES - LEASING ARRANGEMENTS

The property, on which the project is constructed, designed as the "D.H. Holmes Property", was donated to CSDC. This property was subsequently leased to Historic Restoration, Inc. ("HRI") originally under one lease and later amended into separate leases, for the purpose of developing residential apartments, a first-class hotel and a parking garage to serve the public. The original lease, the hotel's eight lease amendments, and the apartment's seven lease amendments have been approved by the Council of the City of New Orleans.

The separate leases signed by and between CSDC (Landlord) and HRI and/or its affiliates include: (1) Seventh Amendment and Restatement of Apartments Lease Agreement dated March 30, 1994, (2) the Sixth Amendment and Restatement of Hotel Lease dated September 15, 1993, as amended by First Amendment to Sixth Amendment and Restatement of Hotel Lease Agreement dated May 6, 1997, Second Amendment to Sixth Amendment and Restatement of Hotel Lease dated August 30, 2000, Seventh Amendment and Restatement of Hotel Lease Agreement dated October 23, 2007, and Eighth Amendment and Restatement of Hotel Lease Agreement dated

CANAL STREET DEVELOPMENT CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
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3. PROGRAM SERVICE FEES - LEASING ARRANGEMENTS (Continued)

September 2, 2011, (3) the Hotel Parking Lease dated September 15, 1993, as amended by First Amendment to Hotel Parking Lease dated May 6, 1997, Amended and Restated Hotel Parking Lease Agreement dated October 23, 2007, and Second Amended and Restated Hotel Parking Lease Agreement dated September 2, 2011 and (4) the Apartments Parking Lease dated September 15, 1993, as amended by First Amendment and Restatement of Apartments Parking Lease dated March 30, 1994

On March 30, 1994, HRI assigned and transferred its interest in the Seventh Amendment and Restatement of Apartments Lease Agreement to 800 Iberville Street Limited Partnership ("Iberville")

HRI assigned and transferred its interest in the Sixth Amendment and Restatement of Hotel Lease (hereinafter referred to as the "Hotel Lease") to the 800 Canal Street Limited Partnership ("800 Canal"). 800 Canal Street Limited Partnership assigned its interest in the Seventh Amendment and Restatement of Hotel Lease to Guitar Partners, LLC ("Guitar Partners"), wholly owned by 800 Canal. Immediately following the Guitar Partners Assignment, Guitar Partners assigned its interest in the Seventh Amendment and Restatement of Hotel Lease to CWI-HRI French Quarter Hotel Property, LLC. Additionally, 800 Canal assigned and transferred its interest in the First Amendment to the Hotel Parking Lease to Sonesta Louisiana Hotel Corporation, who then assigned its interest in the lease to HRI Parking Corporation. In connection with the 2007 Chateau Sonesta Hotel Restructuring, said assignments of the First Amendment of the Hotel Parking Lease were terminated and 800 Canal assigned and transferred its interest in the Amended and Restated Hotel Parking Lease to HRI Lodging Incorporated, who then assigned and transferred its interest in the lease to HRI Parking Corporation. Subsequently, 800 Canal assigned its interest in the 2007 Hotel Parking Lease to Guitar Partners, LLC. Immediately following the Guitar Partners Assignment, Guitar Partners assigned its interest in the 2007 Hotel Parking Lease to CWI-HRI French Quarter Hotel Property, LLC.

Tenant 800 Iberville -Apartments Lease

The terms of the Apartments Lease assigned to 800 Iberville Street Limited Partnership are as follows

The term of the Apartments Lease is effective December 1, 1989, the Lease Commencement Date, and ends 99 years thereafter

- (1) Fixed Rent Commencing with the Rental Commencement Date (December 1, 1994) and continuing until the end of the term, tenant shall pay a fixed minimum rent to CSDC on a monthly basis as follows

- (a) Year one - \$32,400 for the year

CANAL STREET DEVELOPMENT CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010

3. PROGRAM SERVICE FEES - LEASING ARRANGEMENTS. (Continued)

Tenant 800 Iberville -Apartments Lease: (Continued)

- (b) Years two through the expiration or termination of the lease, Fixed Rent shall be adjusted annually (but not decreased) commencing on the first anniversary of the Rental Commencement Date in accordance with the CPI Adjustment and Fixed Rent Appraisal provisions of the Apartments Lease
- (c) Year sixteen (16) and every 10 years thereafter, Fixed Rent is tied to Market Value by appraisal

For the years ended December 31, 2011 and 2010, fixed rent income was \$47,356 and \$46,936, respectively

- (2) Percentage Rent Commencing with year six, a percentage rent is due in the amount of six percent (6%) of gross income as defined in the Apartments Lease, in excess of \$1,125,000 (the "Percentage Rent Threshold Level"). For the years ended December 31, 2011 and 2010, percentage rent was \$13,197 and \$8,673, respectively
- (3) Additional Rent Commencing January 21, 1993, CSDC is to receive two-thirds (2/3) of all monies received as percentage rental from third parties. On June 22, 2000, the Apartments (800 Iberville Street Limited Partnership) signed a lease with LFBP #1, LLC d/b/a/ G. W. Fins This entity opened for business in March 2001. For the years ended December 31, 2011 and 2010, additional rent was \$51,875 and \$37,779, respectively.
- (4) Base Commercial Rent Participation Commencing March 1, 2005, thirty percent (30%) and fifty percent (50%) of any base or fixed commercial rent paid by G W Fins and Deanie's, respectively, is due to CSDC However, CSDC will not be entitled to receive Base Commercial Rent Participation for the period of time commencing on the date the Apartments are completed and opened to the public through February 28, 2005 to the extent that commercial sublease rent payable is equal to or less than \$7 00 per square foot, adjusted annually For the years ended December 31, 2011 and 2010, Base Commercial Rent Participation was \$24,855 and \$20,784, respectively
- (5) Air Rights Rent CSDC is entitled to receive in advance Landlord Air Rights Rent in the amount of \$5,700 per annum, commencing on the Rental Commencement Date (December 1, 1994) Beginning December 1, 2000, the rent will increase by 15% every five years. For the years ended December 31, 2011 and 2010, Air Rights Rent was \$8,669 and \$7,633, respectively

CANAL STREET DEVELOPMENT CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010

3 PROGRAM SERVICE FEES - LEASING ARRANGEMENTS (Continued)

Tenant 800 Iberville - Apartments Lease. (Continued)

- (6) Landlord Administrative Expense (LAE): The Landlord shall receive a certain minimum amount of annual revenue for Landlord Administrative Expenses. LAE shall not be payable in addition to any rent unless the sum of such annual rent payments total less than \$12,000 per year, or unless there is an event of foreclosure. For the years ended December 31, 2011 and 2010, no Landlord Administrative Expense reimbursement was received.

Subtenant – LFBP #1, LLC:

On June 22, 2000, the Apartments (800 Iberville Street Limited Partnership) entered into a contract with LFBP #1, LLC (Little Fish, Big Pond), for the operation of a restaurant, including all uses incidental or related, under the trade name of G. W. Fins. The tenant has agreed to continuously use, occupy and operate the business except for (a) casualty, (b) holidays on which restaurants within the French Quarter are generally closed for business, or (c) up to fourteen (14) business days in any calendar year for repairs or renovations to the Premises.

The term of the lease is for forty-two (42) years commencing on the Term Commencement Date. The restaurant did not open for business until March 2001.

- (1) Fixed Rent. Commencing with the term commencement date, base rent is payable as follows:

- (a) Year 1 - \$5.00 per square foot, or \$35,000 annually
- (b) Year 2 - \$5.20 per square foot, or \$36,400 annually.
- (c) Year 3 - \$5.41 per square foot, or \$37,856 annually
- (d) Year 4 - \$5.62 per square foot, or \$39,970 annually
- (e) Year 5 - \$5.85 per square foot, or \$40,945 annually
- (f) Year 6 - \$6.08 per square foot, or \$42,583 annually.
- (g) Year 7 - \$6.33 per square foot, or \$44,286 annually
- (h) Year 8 - \$6.58 per square foot, or \$46,048 annually.
- (i) Year 9 - \$6.84 per square foot, or \$47,900 annually
- (j) Year 10 - \$7.12 per square foot, or \$49,816 annually
- (k) Year 11 - \$7.25 per square foot, or \$51,750 annually
- (l) Year 12 - \$7.66 per square foot, or \$54,620 annually
- (m) Year 13 - \$8.09 per square foot, or \$57,605 annually
- (n) Year 14 - \$8.53 per square foot, or \$60,709 annually
- (o) Year 15 - \$9.03 per square foot, or \$64,709 annually
- (p) Year 16 - \$9.60 per square foot, or \$69,600 annually
- (q) Year 17 - \$10.24 per square foot, or \$75,480 annually
- (r) Year 18 - \$10.93 per square foot, or \$82,139 annually
- (s) Year 19 - \$11.68 per square foot, or \$89,985 annually
- (t) Year 20 - \$12.52 per square foot, or \$98,024 annually
- (u) Year 21 through 42 – to be negotiated in year 20 of the lease

CANAL STREET DEVELOPMENT CORPORATION  
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3. PROGRAM SERVICE FEES - LEASING ARRANGEMENTS (Continued)

Subtenant – LFBP #1, LLC (Continued)

- (2) Percentage Rent Commencing one month after the commencement date, percentage rent is payable as follows.

- (a) Year 1 – Five percent (5%) of Gross Sales over \$2,508,878.
- (b) Year 2 – Five percent (5%) of Gross Sales over \$2,536,878.
- (c) Year 3 – Five percent (5%) of Gross Sales over \$2,565,998
- (d) Year 4 – Five percent (5%) of Gross Sales over \$2,596,283
- (e) Year 5 – Five percent (5%) of Gross Sales over \$2,627,779.
- (f) Year 6 – Five percent (5%) of Gross Sales over \$2,660,535.
- (g) Year 7 – Five percent (5%) of Gross Sales over \$2,694,602.
- (h) Year 8 – Five percent (5%) of Gross Sales over \$2,730,030
- (i) Year 9 – Five percent (5%) of Gross Sales over \$2,766,877.
- (j) Year 10 – Five percent (5%) of Gross Sales over \$2,805,196
- (k) Year 11 – Five percent (5%) of Gross Sales over \$3,243,878.
- (l) Year 12 – Five percent (5%) of Gross Sales over \$3,301,278
- (m) Year 13 – Five percent (5%) of Gross Sales over \$3,360,974
- (n) Year 14 – Five percent (5%) of Gross Sales over \$3,423,058
- (o) Year 15 – Five percent (5%) of Gross Sales over \$3,563,058
- (p) Year 16 – Five percent (5%) of Gross Sales over \$4,048,878
- (q) Year 17 – Five percent (5%) of Gross Sales over \$4,138,478.
- (r) Year 18 – Five percent (5%) of Gross Sales over \$4,231,662
- (s) Year 19 – Five percent (5%) of Gross Sales over \$4,328,574
- (t) Year 20 – Five percent (5%) of Gross Sales over \$4,429,361.
- (u) Year 21 through 42 – to be negotiated in year 20 of the lease

- (3) Operating Costs: Tenant shall pay its pro rata share (4 82%) of property taxes and insurance premiums for all insurance maintained in connection with the Building

Subtenant Chifici Enterprises, Inc d/b/a Deanie's Seafood Restaurant

On December 9, 2003, the Board of Directors approved the terms of an additional lease with Deanie's Seafood Restaurant for approximately 742 square feet on the first floor of the former D H Holmes annex along Iberville Street to be used as additional private dining and banquet space for Deanie's Seafood Restaurant

The term of the lease will run coterminous with the existing lease expiring on August 15, 2015 The lease term will begin on or about the earlier of 120 days following the tenant's receipt of the permits for tenant improvements, or the date the tenant opens for business

CANAL STREET DEVELOPMENT CORPORATION  
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**3 PROGRAM SERVICE FEES - LEASING ARRANGEMENTS (Continued)**

**Subtenant Chifrici Enterprises, Inc. d/b/a Deanie's Seafood Restaurant: (Continued)**

Base rental rate is \$12.00 per square foot. Percentage rent does not apply. The rent will escalate in a proportionate share to the original lease dated February 17, 2000. The tenant will have three (3) options to extend for periods of five (5) years each commencing at the tenth anniversary of the original lease term.

**Tenant CWI-HRI French Quarter Hotel Property, LLC - Hotel Lease**

Summary of Eighth Amendment and Restatement of Hotel Lease Agreement by and between Canal Street Development Corporation ("CSDC") and CWI-HRI French Quarter Hotel Property, LLC dated September 2, 2011 (the "Lease")

**1 Parties:**

- (a) Landlord: CSDC
- (b) Tenant: CWI-HRI French Quarter Hotel Property, LLC

**2 Leased Premises.** certain fee simple and leasehold estates owned or leased by CSDC, situated in Square 67, Second Municipal District, New Orleans, Louisiana, described more particularly in Schedule "1" of the Lease, together with all improvements and constructions thereon, and all appurtenances thereunto appertaining, and the Air Space described on Schedule "16" to the Lease. The Leased Premises includes CSDC's leasehold estate under the Salmen Lease.

**3. Term (Section 5)**

- (a) Primary term: ninety-nine (99) years, from 9/2/2011 to 9/2/2110
- (b) Option: none

**4 Rent (Section 7)**

- (a) Types of Rent
  - (i) Base Rent

Payable monthly, in advance of the first of each month, as follows

- (a) Year one-\$300,000 for the year

CANAL STREET DEVELOPMENT CORPORATION  
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3 PROGRAM SERVICE FEES - LEASING ARRANGEMENTS (Continued)

Tenant CWI-HRI French Quarter Hotel Property, LLC - Hotel Lease: (Continued)

- (b) Year two through the expiration or earlier termination of the lease, base rent shall be annually adjusted commencing on the first anniversary of the effective date, but not decreased.
  - (1) Annual adjustment based upon the greater of (i) 3% or (ii) the extent to which the CPI has increased during the previous year
- (c) CWI-HRI French Quarter Hotel Property, LLC shall be entitled to a reduction in the monthly base rent payable to CSDC equal to the monthly air rights rent paid

For the period September 2, 2011 through December 31, 2011, fixed rent was \$97,992

- (ii) Percentage Rent (Payable within 90 days following the end of each calendar year – by March 31<sup>st</sup> (March 30<sup>th</sup> in leap years)) as follows
  - (1) 4.5% of Gross Income in excess of the annual threshold. The percentage rent threshold level shall be calculated on an annual basis by dividing the sum of (i) Base Rent (ii) rent under the Salmen lease paid by Tenant and (iii) rent under the Corner Lot lease paid by Tenant, in effect for such year by 4.5%. The threshold was prorated for the period September 2, 2011 through December 31, 2011
  - (2) Definition of “Gross Income” modified to exclude garage revenue (but not Hotel Valet Parking Revenue) and telephone charges (but not telephone commissions) collected from guests on behalf of the telephone company. Gross Income is defined in Section 7A of the Lease

For the period September 2, 2011 through December 31, 2011, percentage rent was \$-0-

- (iii) Additional Rent 41% of all monies actually received by CWI-HRI French Quarter Hotel Property, LLC for any percentage rental from third party tenants, payable within 30 days of receipt by CWI-HRI French Quarter Hotel Property, LLC. CWI-HRI French Quarter Hotel Property, LLC must use commercially reasonable efforts to collect all percentage rent and other rent due from any third party

CANAL STREET DEVELOPMENT CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
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3 PROGRAM SERVICE FEES - LEASING ARRANGEMENTS: (Continued)

Tenant CWI-HRI French Quarter Hotel Property, LLC - Hotel Lease (Continued)

For the year ended December 31, 2011, additional rent was not due.

- (iv) Base Commercial Rent Participation: 41% of any base commercial rent paid to CWI-HRI French Quarter Hotel Property, LLC and hotel operator by any commercial subtenant (excluding base commercial rent paid by hotel operator to CWI-HRI French Quarter Hotel Property, LLC), payable within 30 days of receipt by CWI-HRI French Quarter Hotel Property, LLC

For the year period September 2, 2011 through December 31, 2011 Base Commercial Rent Participation was \$47,050

- (v) Air Rights Rent. \$501.89 per month, subject to 15% increase every five years (the next increase will take effect 12/1/2015)

For the period September 2, 2011 through December 31, 2011, Air Rights Rent was \$2,008

Tenant 800 Canal Street – Hotel Lease

Summary of Seventh Amendment and Restatement of Hotel Lease Agreement by and between Canal Street Development Corporation (“CSDC”) and 800 Canal Street Limited Partnership (“800 Canal”) dated October 23, 2007 (the “Lease”) and subsequently amended by the Eight Amendment and Restatement of Hotel Lease Agreement dated September 2, 2011

- 1 Parties
  - (a) Landlord. CSDC
  - (b) Tenant 800 Canal Street Limited Partnership
- 2 Leased Premises certain fee simple and leasehold estates owned or leased by CSDC, situated in Square 67, Second Municipal District, New Orleans, Louisiana, described more particularly in Schedule “1” of the Lease, together with all improvements and constructions thereon, and all appurtenances thereunto appertaining, and the Air Space described on Schedule “16” to the Lease. The Leased Premises includes CSDC’s leasehold estate under the Salmen Lease
- 3 Term (Section 5)
  - (a) Primary term ninety-nine (99) years, from 12/1/89 to 11/30/2088 (term expires simultaneously with expiration of Apartments Lease term)
  - (b) Option none

CANAL STREET DEVELOPMENT CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
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3. PROGRAM SERVICE FEES - LEASING ARRANGEMENTS (Continued)

Tenant 800 Canal Street - Hotel Lease (Continued)

4. Temporary Adjustment Period

- (a) October 23, 2007 through the earlier to occur of (i) December 31, 2014 or (ii) the date on which the interest of Tenant under the Lease is sold or otherwise transferred to a third party

5. Rent (Section 7)

(a) Types of Rent

(i) Base Rent

Payable monthly, in advance of the first of each month, as follows:

(a) Temporary Adjustment Period

- (1) October 23, 2007 – December 31, 2014 \$218,000 per year (\$18,637.86 per month)
- (2) On January 1<sup>st</sup> of each year from January 1, 2009 through 2014, increases by the lesser of 2.5% or CPI

(b) After Temporary Adjustment Period

- (1) Annual adjustment based upon increase in CPI (rent, as adjusted, shall never be less than previous year)
- (2) On December 1<sup>st</sup> of 2010, 2020, 2030, 2040, 2050, 2060, 2070 and 2080 Base Rent is adjusted to equal the average of the total Base Rent and Percentage Rent paid over the 3 year period prior to the applicable Base Rent Adjustment Date, multiplied by 80% (in addition to CPI adjustment)

For the year ended December 31, 2010, fixed rent was \$224,325. For the period January 1, 2011 through September 1, 2011 fixed rent was \$151,333

CANAL STREET DEVELOPMENT CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
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3. PROGRAM SERVICE FEES - LEASING ARRANGEMENTS (Continued)

Tenant 800 Canal Street - Hotel Lease (Continued)

- (ii) Percentage Rent (Payable within 90 days following the end of each calendar year – by March 31<sup>st</sup> (March 30<sup>th</sup> in leap years)).

(a) Temporary Adjustment Period

- (1) 5% of Gross Income in excess of the following annual threshold (\$124,000 + Base Rent during the current lease year / 5%). For example, the Percentage Rent for the period 1/1/11 – 9/1/11 will be 5% of Gross Income in excess of \$7,019,989
- (2) Definition of “Gross Income” modified to include telephone net revenues and to exclude garage revenues and commercial space subtenant rent; Gross Income is defined in Section 1.3 of the Lease.

(b) After Temporary Adjustment period

- (1) 6% of Gross Income in excess of breakpoint; breakpoint is increased annually by quotient of Fixed Rent divided by 6% once Fixed Rent exceeds \$480,000

For the year ended December 31, 2010, Percentage Rent was \$88,115 For the period January 1, 2011 through September 1, 2011 Percentage Rent was \$82,822.

(iii) Revenue Sharing Rental

(a) Temporary Adjustment Period

- (1) None

(b) After Temporary Adjustment Period

- (1) 15% of Net Cash Flow of the Project each quarter, payable by the 20<sup>th</sup> day after the end of each quarter

For the year ended December 31, 2010, rent revenue sharing was not due

- (iv) Additional Rent. Commencing January 21, 1993, 41% of all monies actually received by 800 Canal for any percentage rental from third party tenants, payable within 30 days of receipt by 800 Canal 800 Canal must use commercially reasonable efforts to collect all percentage rent and other rent due from any third party

CANAL STREET DEVELOPMENT CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
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3 PROGRAM SERVICE FEES - LEASING ARRANGEMENTS (Continued)

Tenant 800 Canal Street - Hotel Lease. (Continued)

For the year ended December 31, 2010, additional rent was not due

- (v) Base Commercial Rent Participation Commencing January 21, 1993, 41% of any base commercial rent paid to 800 Canal and hotel operator by any commercial subtenant (excluding base commercial rent paid by hotel operator to 800 Canal), payable within 30 days of receipt by 800 Canal

For the year ended December 31, 2010, Base Commercial Rent Participation was \$148,065. For the period January 1, 2011 through September 1, 2011 Base Commercial Rent Participation was \$89,398

- (vi) Air Rights Rent \$501.89 per month, subject to 15% increase every five years (the next increase will take effect 12/1/2015)

For the year ended December 31, 2010, Air Rights Rent was \$6,055 For the period January 1, 2011 through September 1, 2011 Air Rights Rent was \$4,055

Subtenant – Red Fish Grill

On August 7, 1996, the Hotel (800 Canal Street Limited Partnership) entered into a Lease with 115 Bourbon, LLC (Red Fish Grill) for the operation of a restaurant, bar, restaurant-related catering and/or other related purposes having a character and quality similar to and consistent with that of the Hotel as of the date of the execution of the Lease, with sales of food and alcoholic beverages primarily on-premises, and the kitchen, office, and support facilities necessary for this use

The term of the Lease is for forty (40) years and is effective as of January 16, 1997, the Lease Commencement Date

- (1) Fixed Rent Commencing with the Lease Commencement Date (January 16, 1997) and continuing until the end of the term, Tenant shall pay a fixed minimum rent to the Landlord on a monthly basis as follows
  - (a) Year one - \$12.50 per square foot, or \$8,977 per Lease period for a total of \$116,700 annually
  - (b) Years two through ten - \$12.50 per square foot or 80% of previous lease year's combined Percentage Rent and Fixed Minimum Rent whichever is greater, but not less than the previous Lease Year's Fixed Minimum Rent

CANAL STREET DEVELOPMENT CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
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3. PROGRAM SERVICE FEES - LEASING ARRANGEMENTS (Continued)

Tenant 800 Canal Street - Hotel Lease (Continued)

Subtenant – Red Fish Grill (Continued)

- (c) Years eleven (11) through fifteen (15) - \$15.00 per square foot or 80% of previous lease year's combined Percentage Rent and Fixed Minimum Rent, whichever is greater, but not less than the previous Lease Year's Fixed Minimum Rent.
  - (d) Years sixteen (16) through twenty (20) - \$17.50 per square foot or 80% of previous lease year's combined Percentage Rent and Fixed Minimum Rent, whichever is greater, but not less than the previous Lease Year's Fixed Minimum Rent
  - (e) Years twenty-one (21) through twenty-five (25) - \$20.00 per square foot or 80% of previous lease year's combined Percentage Rent and Fixed Minimum Rent, whichever is greater, but not less than the previous Lease Year's Fixed Minimum Rent
  - (f) Years twenty-six (26) through thirty (30) - \$22.50 per square foot or 80% of previous lease year's combined Percentage Rent and Fixed Minimum Rent, whichever is greater, but not less than the previous Lease Year's Fixed Minimum Rent.
  - (g) Years thirty-one (31) through thirty-five (35) - \$25.00 per square foot or 80% of previous lease year's combined Percentage Rent and Fixed Minimum Rent, whichever is greater, but not less than the previous Lease Year's Fixed Minimum Rent
  - (h) Years thirty-six (36) through forty (40) - \$27.50 per square foot or 80% of previous lease year's combined Percentage Rent and Fixed Minimum Rent, whichever is greater, but not less than the previous Lease Year's Fixed Minimum Rent
- (2) Percentage Rent As a further inducement for the Landlord's entering into this Lease with Red Fish Grill, the Tenant will pay a Percentage of Gross Receipts (as defined in the Lease) as follows

<u>Increments of Gross Receipts</u>	<u>Percentage</u>
\$0 - \$3,000,000	3%
\$3,000,001 - \$6,000,000	5%
Excess over \$6,000,000	4.5%

CANAL STREET DEVELOPMENT CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
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3. PROGRAM SERVICE FEES - LEASING ARRANGEMENTS. (Continued)

Subtenant – Red Fish Grill (Continued)

- (3) Operating Costs The tenant will pay a proportionate share of all costs incurred by the Landlord for management, maintenance or capital improvements to the building.
- (4) Real Estate Tax and Insurance Expenses. The tenant will also reimburse the Landlord for a proportionate share of expenses for real estate taxes and insurance paid

Subtenant – Storyville District New Orleans, LLC:

On January 26, 1998, the Hotel (800 Canal Street Limited Partnership) entered into a Lease with Storyville District New Orleans, LLC (Storyville District) for the operation of an entertainment club having a character and quality similar to and consistent with that of the Hotel, featuring live musical performances and/or other entertainment, a bar, or lounge, which may serve food and alcoholic and non-alcoholic beverages and the necessary kitchen, office, and support facilities appropriate for this use.

On February 4, 2002, Storyville District New Orleans, LLC, a subtenant of the Hotel Lease, entered into an agreement with Bourbon Street Management, LLC to sublease the premises they currently occupy for the remainder of the lease term. The leased premises will be used only for the operation of an entertainment club having a character and quality similar to and consistent with that of the Hotel. All terms of the lease between the Hotel and Storyville District New Orleans, LLC will remain the same. However, the sublease redefined the lease years to agree with the original lease

The term of the Lease is for ten (10) years to commence on May 15, 1998, or the date Tenant opens for business, whichever is sooner ("Commencement Date") Storyville District actually began operations on December 29, 1998. The Tenant shall have five (5) options to extend the Lease Term for a period of five (5) Lease Years each, upon the terms and conditions set forth hereinafter. In the event the Tenant's Gross Receipts (as defined in the Lease) for the five-year period ending with the twentieth Lease Year (excluding from such five-year period the two Lease Years with the highest and lowest Gross Receipts) are less than \$5,500,000 per year on average, the Tenant shall have no further options to renew this Lease, and the Lease shall automatically terminate at the end of the fifteenth Lease Year

- (1) Fixed Rent. Commencing with the Lease Commencement Date, May 15, 1998, and continuing until the end of the term, Tenant shall pay a fixed minimum rent to the Landlord on a monthly basis as follows
  - (a) Years one through three - \$16.00 per square foot or \$12,485 per lease period, for a total of \$162,305 annually

CANAL STREET DEVELOPMENT CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
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3. PROGRAM SERVICE FEES - LEASING ARRANGEMENTS: (Continued)

Subtenant – Storyville District New Orleans, LLC. (Continued)

- (b) Year four – greatest of (i) \$18 00, (ii) 65% of previous Lease Year's combined Percentage Rent and Fixed Minimum Rent, or (iii) 80% of the average combined Percentage Rent and Fixed Minimum Rent for the previous three Lease Years, but not less than the previous Lease Year's Fixed Minimum Rent.
- (c) Years five and six - \$18 00 or 65% of previous Lease Year's combined Percentage Rent and Fixed Minimum Rent, whichever is greater, but not less than the previous Lease Year's Fixed Minimum Rent
- (d) Year seven – greatest of (i) \$18 00, (ii) 65% of previous Lease Year's combined Percentage Rent and Fixed Minimum Rent, or (iii) 80% of the average combined Percentage Rent and Fixed Minimum Rent for the previous three Lease Years, but not less than the previous Lease Year's Fixed Minimum Rent.
- (e) Years eight and nine - \$18.00 or 65% of previous Lease Year's combined Percentage Rent and Fixed Minimum Rent, whichever is greater, but not less than the previous Lease Year's Fixed Minimum Rent
- (f) Year ten – greatest of (i) \$18 00, (ii) 65% of previous Lease Year's combined Percentage Rent and Fixed Minimum Rent, or (iii) 80% of the average combined Percentage Rent and Fixed Minimum Rent for the previous three Lease Years, but not less than the previous Lease Year's Fixed Minimum Rent.
- (g) Option years eleven (11) to fifteen (15) - \$20 00 or 65% of previous Lease Year's combined Percentage Rent and Fixed Minimum Rent, whichever is greater, but not less than the previous Lease Year's Fixed Minimum Rent.
- (h) Option years sixteen (16) to twenty (20) - \$22 00 or 65% of previous Lease Year's combined Percentage Rent and Fixed Minimum Rent, whichever is greater, but not less than the previous Lease Year's Fixed Minimum Rent.
- (i) Option years twenty-one (21) to twenty-five (25) - \$24 00 or 65% of previous Lease Year's combined Percentage Rent and Fixed Minimum Rent, whichever is greater, but not less than the previous Lease Year's Fixed Minimum Rent
- (j) Option years twenty-six (26) to thirty (30) - \$26 00 or 65% of previous Lease Year's combined Percentage Rent and Fixed Minimum Rent, whichever is greater, but not less than the previous Lease Year's Fixed Minimum Rent.

CANAL STREET DEVELOPMENT CORPORATION  
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3 PROGRAM SERVICE FEES - LEASING ARRANGEMENTS. (Continued)

Subtenant – Storyville District New Orleans, LLC: (Continued)

- (k) Option years thirty-one (31) to thirty-five (35) - \$28 00 or 65% of previous Lease Year's combined Percentage Rent and Fixed Minimum Rent, whichever is greater, but not less than the previous Lease Year's Fixed Minimum Rent

Notwithstanding the foregoing, Fixed Minimum Rent shall be adjusted every three (3) years beginning in year thirteen (13) to be the greater of (i) the dollar amount set forth above for the applicable option period, or (ii) 65% of previous Lease Year's combined Percentage Rent and Fixed Minimum Rent for the previous three Lease Years, but not less than the previous Lease Year's Fixed Minimum Rent

- (2) Percentage Rent: As a further inducement for the Landlord's entering into this Lease with Tenant, from and after the Commencement Date, the Tenant agrees to pay the Landlord a Percentage Rent of Gross Receipts (as defined in the Lease) as follows:

<u>Increments of Gross Receipts</u>	<u>Percentage</u>
\$0 - \$4,000,000	5%
\$4,000,001 - \$6,000,000	6%
Excess over \$6,000,000	7%

- (3) Operating Costs: The Tenant will pay a proportionate share of all costs incurred by the Landlord for management, maintenance or capital improvements to the building.
- (4) Real Estate Tax and Insurance Expenses: The Tenant will also reimburse the Landlord for a proportionate share of expenses for real estate taxes and insurance paid

In 2007, the Quint Davis Group sold its interest in Storyville District to an entity owned by Jacques Chrysochoos. The CSDC board consented to the sale and approved the transfer of all rights under the Storyville lease to the new owner. Chrysochoos currently operates two establishments under the sublease.

Subtenant – Studio E

On July 1, 2008, the Hotel (800 Canal Street Limited Partnership) entered into a Lease with Studio-E LLC (Studio E) for the operation of a first-class hair salon with retail sale of related merchandise that is customary in first-class hair salons and with rights to hang artworks on the wall for sale, but only in conjunction with the primary use of the leased premises as a first-class hair salon.

CANAL STREET DEVELOPMENT CORPORATION  
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3 PROGRAM SERVICE FEES - LEASING ARRANGEMENTS (Continued)

Subtenant – Studio E (Continued)

The lease term is for five (5) years beginning on the Lease Commencement Date of November 11, 2008. The Tenant shall have one option to extend the lease term for a period of five (5) years.

- (1) Fixed Rent: Commencing with the Lease Commencement Date, November 11, 2008, and continuing until the end of the term, Tenant shall pay a fixed minimum rent to the Landlord on a monthly basis as follows

Initial Term.       \$1,500 per month for total of \$18,000 annually

Extension term     \$1,725 per month for a total of \$20,700 annually

- (2) Fixed Minimum Rent Construction Credit: Under the terms of the lease, when the tenant completed the initial improvements to the property, the tenant will provide the landlord with a full accounting for and reasonable evidence of its out-of-pocket expenditures and lien waivers from all contractors, subcontractors and suppliers of materials who have constructed or performed work or provided materials in connection with the initial improvements. The tenant will be permitted to deduct the initial improvement costs from its first twelve (12) months of fixed minimum rent in an aggregate amount not to exceed \$18,000.
- (3) Proportionate Share of Commercial Space Expense: Tenant is expected to pay a proportionate share (calculated to be 2.05%) of commercial space expenses including, but not limited to insurance, lease management fees and commissions, real estate taxes, repairs and maintenance

Tenant CWI-HRI French Quarter Hotel Property, LLC – Hotel Parking Lease

Summary of Second Amended and Restated Hotel Parking Lease by and between Canal Street Development Corporation ("CSDC") and CWI-HRI French Quarter Hotel Property, LLC effective as of September 2, 2011 (the "Lease")

1. Parties

- (a) Landlord: CSDC (Lessee under the Mercier Ground Lease)
- (b) Tenant: CWI-HRI French Quarter Hotel Property, LLC

CANAL STREET DEVELOPMENT CORPORATION  
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3 PROGRAM SERVICE FEES - LEASING ARRANGEMENTS: (Continued)

Tenant CWI-HRI French Quarter Hotel Property, LLC – Hotel Parking Lease (Continued)

- 2 Leased Premises (Section 2)· Former D H Holmes Parking Garage (contains approximately 340 parking spaces) and all improvements, located in part on land owned by Mercier Realty & Investment Co , and in part on land owned by CSDC (the “Garage”), together with entrance and exit ramp facilities and the non-exclusive right and license to use certain lobby and elevator facilities appurtenant thereto (the “Leased Premises”)
3. Term (Section 3)
  - (a) Primary term· ninety-nine (99) years, from 9/2/2011 to 9/2/2110
  - (b) Option Term(s) Following the initial 30-year period of the Term (the “Initial” period), which Initial period shall include the period from 9/2/2011 through 12/31/2042, CSDC and CWI-HRI French Quarter Hotel Property, LLC will negotiate the rent and other terms of the Lease for each successive 10 year period (each an “Option Period”)
    - (i) CWI-HRI French Quarter Hotel Property, LLC shall deliver the proposed terms and conditions to CSDC not less than 90 days prior to the end of the Initial period or then-current Option period. The terms and conditions for the next Option period shall be negotiated in good faith by the parties prior to the expiration of the Initial Period or then-current Option period.
    - (ii) CSDC must timely exercise each option granted under the Mercier Ground Lease, provided that CWI-HRI French Quarter Hotel Property, LLC furnishes CSDC with notice of exercise not less than 60 days prior to the last day on which CSDC may exercise
  - (c) Termination Notwithstanding options granted, Lease will automatically terminate concurrently with the expiration, termination, or cancellation of the Hotel Lease If Mercier Ground Lease is terminated or expires, Lease shall terminate as of same date, subject to any non-disturbance and attornment or similar rights granted directly by Mercier to CWI-HRI French Quarter Hotel Property, LLC or its Mortgagee CSDC has the right to terminate, or to make equitable adjustment to, the Lease if CSDC’s right under the Mercier Ground Lease are substantially reduced as a result of circumstances reasonably beyond CSDC’s control.

CANAL STREET DEVELOPMENT CORPORATION  
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3 PROGRAM SERVICE FEES - LEASING ARRANGEMENTS. (Continued)

Tenant CWI-HRI French Quarter Hotel Property, LLC – Hotel Parking Lease (Continued)

4 Rent (Section 4):

(a) Types of Rent:

(i) Fixed Minimum Rent (Section 4(a)). Payable monthly, in advance on the first of each month, as follows.

(a) During the first five (5) years of the Initial period, plus the period from 9/2/2011 through 12/31/2011. \$209,570 per annum, plus the amount of any Mercier increases, payable in equal monthly installments of \$17,464, plus the amount of any Mercier increases.

(b) During the second five (5) year period of the Initial period, the Fixed Minimum Rent shall be \$250,000 per annum, plus the amount of any Mercier increases, payable in equal monthly installments of \$20,833, plus the amount of any Mercier increases.

(c) During the last twenty (20) years of the Initial period, the Fixed Minimum Rent shall be increased annually by the greater of (i) three percent (3.00%) of the Fixed Minimum Rent in effect for the immediately preceding Lease year or (ii) the amount by which the CPI has increased during the previous year, subject to certain limitations as set forth in Section 4(a) of the lease.

For the period September 2, 2011 through December 31, 2011, Fixed Rent was \$82,377

(ii) Percentage Rent (Section 4(b)) Payable on or before the 10<sup>th</sup> of each month

(a) Percentage rent shall be an amount equal to fifty percent (50%) multiplied by the difference between (i) Gross Garage Revenue after subtracting Hotel Valet Parking Income and (ii) to the extent paid by Tenant, the sum of CWI-HRI French Quarter Property, LLC's proportionate share of operating costs, operating expenses, insurance premiums, the Monthly Capital Improvement Fund Deposit, and Fixed Minimum Rent (including Mercier increases, which include real estate taxes payable under the Mercier Lease)

CANAL STREET DEVELOPMENT CORPORATION  
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3 PROGRAM SERVICE FEES - LEASING ARRANGEMENTS. (Continued)

Tenant CWI-HRI French Quarter Hotel Property, LLC – Hotel Parking Lease (Continued)

- (b) On or before the tenth (10<sup>th</sup>) day following the end of each calendar month, CWI-HRI French Quarter Property, LLC shall furnish CSDC with a written statement certified to be correct by CWI-HRI French Quarter Property, LLC showing the Percentage Rent due from the beginning of the Lease Year to the end of the preceding calendar month or portion thereof and setting forth the (i) the amount of Gross Garage Revenues generated in, at, or from the Leased premises; (ii) Hotel Valet Parking Income; (iii) CWI-HRI French Quarter Property, LLC's proportionate share of operating costs; (iv) Operating expenses; (v) Insurance premiums paid by CWI-HRI French Quarter Property, LLC; (vi) the Monthly Capital Improvement Fund deposit; and (vii) Fixed Minimum Rent (separately identifying any amounts paid to Mercier on CSDC's behalf as rent and for payment of real estate taxes) (such statement is the "Monthly Statement")
- (c) Within thirty (30) days following the end of each Lease Year in which Percentage Rent is due to CSDC, CWI-HRI French Quarter Property, LLC shall compute the amount of Percentage Rent due to CSDC for such Lease year. If the amount computed is such that CWI-HRI French Quarter Property, LLC has underpaid any Percentage Rent, CWI-HRI French Quarter Property, LLC shall pay CSDC the deficiency within ten (10) days following the date of such reconciliation. If, on the other hand, CWI-HRI French Quarter Property, LLC has overpaid the amount of Percentage Rent due to CSDC for such Lease Year, then CWI-HRI French Quarter Property, LLC shall be entitled to offset the excess amount so paid out of the installment(s) of Fixed Minimum Rent next due to CSDC, until repaid, except in the final Lease Year, in which CSDC shall promptly pay such excess to CWI-HRI French Quarter Property, LLC following expiration of the final Lease Year.

For the period September 2, 2011 through December 31, 2011, Percentage Rent was \$30,654

- (iii) Capital Improvement Fund Deposits. Tenant pays the lesser of (i) \$2,000 or (ii) Net Garage Revenues less Fixed Minimum Rent and expenses incurred by CWI-HRI French Quarter Property, LLC in the operation and maintenance of the garage (but not management fees paid to garage operator)

CANAL STREET DEVELOPMENT CORPORATION  
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3 PROGRAM SERVICE FEES - LEASING ARRANGEMENTS (Continued)

Tenant CWI-HRI French Quarter Hotel Property, LLC – Hotel Parking Lease (Continued)

For the period September 2, 2011 through December 31, 2011, Capital Improvement Fund Deposit was \$8,000

- 6 Tenant Improvements CWI-HRI French Quarter Property, LLC may reimburse itself for the tenant improvements, as defined, from the capital improvements fund for the entire cost of the improvements. In addition, the Partnership may use percentage rent (see above) if the capital improvement funds are insufficient.
7. Operating Costs and Insurance Premiums: In addition to fixed minimum rent and percentage rent, CWI-HRI French Quarter Property, LLC shall pay monthly to CSDC its proportionate share, as defined, of all costs incurred by CSDC in maintaining, repairing, operating and insuring the leased premises
- 8 Utilities CWI-HRI French Quarter Property, LLC shall pay all utilities required, used or consumed in the leased premises.

Tenant – 800 Canal Street Hotel Parking Lease

Summary of Amended and Restated Hotel Parking Lease by and between Canal Street Development Corporation (“CSDC”) and 800 Canal Street Limited Partnership (“800 Canal”) effective as of October 23, 2007 (the “Lease”), and subsequently amended by the Second Amended and Restated Hotel Parking Lease Agreement dated September 2, 2011

1 Parties

- (a) Landlord: CSDC (Lessee under the Mercier Ground Lease)
- (b) Tenant 800 Canal (assignee of Historic Restoration, Inc )

2 Leased Premises (Section 2) Former D H Holmes Parking Garage (contains approximately 340 parking spaces) and all improvements, located in part on land owned by Mercier Realty & Investment Co , and in part on land owned by CSDC (the “Garage”), together with entrance and exit ramp facilities and the non-exclusive right and license to use certain lobby and elevator facilities appurtenant thereto (the “Leased Premises”)

3 Term (Section 3)

- (a) Primary term 5/4/2007 – 5/3/2012
- (b) Option Term(s): 800 Canal has option to extend Term for successive periods of five (5) years each, not to exceed 99 years from December 1, 1989, upon 90 days prior written notice to CSDC

CANAL STREET DEVELOPMENT CORPORATION  
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3. PROGRAM SERVICE FEES - LEASING ARRANGEMENTS (Continued)

Tenant 800 Canal Street – Hotel Parking Lease (Continued)

- (i) Terms and conditions of each option to renew, including rent, shall be negotiated by the parties in good faith, prior to the expiration of the Primary Term or then-current Option Term, or such exercise will not be valid and the Lease will terminate.
- (ii) CSDC must timely exercise each option granted under the Mercier Ground Lease, provided that 800 Canal furnishes CSDC with notice of exercise not less than 60 days prior to the last day on which CSDC may exercise
- (c) Termination: Notwithstanding options granted, Lease will automatically terminate concurrently with the expiration, termination, or cancellation of the Hotel Lease. If Mercier Ground Lease is terminated or expires, Lease shall terminate as of same date, subject to any non-disturbance and attornment or similar rights granted directly by Mercier to 800 Canal or its Mortgagee. CSDC has the right to terminate, or to make equitable adjustment to, the Lease if CSDC's right under the Mercier Ground Lease are substantially reduced as a result of circumstances reasonably beyond CSDC's control

4 Temporary Adjustment Period:

- (a) October 23, 2007 through the earlier to occur of: (i) December 31, 2014 or (ii) the date on which the interest of Tenant under the Lease is sold or otherwise transferred to a third party.

5 Rent (Section 4)

(a) Types of Rent

- (i) Fixed Minimum Rent (Section 4(a)) Payable monthly, in advance on the first of each month, as follows

- (a) Temporary Adjustment Period October 23, 2007 – December 31, 2014 \$243,903 per year (\$20,325.25 per month) plus Mercier increases. Although not provided for under the Lease, in practice, 800 Canal pays the full amount of rent due under the Mercier Ground Lease and receives a deduction of \$9,991.96 per month against the rent due to CSDC. The monthly amount due after this deduction is \$10,333.29.

CANAL STREET DEVELOPMENT CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
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3 PROGRAM SERVICE FEES - LEASING ARRANGEMENTS: (Continued)

Tenant 800 Canal Street – Hotel Parking Lease: (Continued)

- (b) Outside Temporary Adjustment Period: \$250,000 per year (\$20,833.33 per month) plus Mercier increases. Although not provided for under the Lease, in practice, 800 Canal pays the full amount of rent due under the Mercier Ground Lease and receives a deduction of \$7,130.87 per month against the rent due to CSDC. The monthly amount due after this deduction is \$13,702.46.

Mercier Increases: (i) any increase in minimum guaranteed rent under the Mercier Lease in excess of \$10,260.93 per month and (ii) any increases in property taxes due from CSDC under the Mercier Lease in excess of those paid for the year 1997.

For the year ended December 31, 2010 Fixed Rent was \$243,903. For the period January 1, 2011 through September 1, 2011 Fixed Rent was \$162,877.

- (ii) Percentage Rent (Section 4(b)). Payable on or before the 10<sup>th</sup> of each month with an annual reconciliation made within 30 days following end of each Lease Year (on or before May 30<sup>th</sup> of each year).

- (a) Temporary Adjustment Period. October 23, 2007 – December 31, 2014: 50% of the gross revenues of the garage less various expenses, (including 800 Canal's proportionate share of CSDC's costs to operate, maintain, and insure the Building, expenses incurred by 800 Canal in the operation and maintenance of the garage, real estate taxes, Mercier Increases, the base management fee of \$24,000 (escalated 2.5% per year) and the Monthly Capital Improvement Fund Deposit).

- (b) Outside Temporary Adjustment Period: 80% of all revenue collected from operation of the Garage less 35% of gross valet parking income less taxes, in excess of the sum of the breakpoint (escalated annually by 2.5%) plus any Mercier Increases, calculated pursuant to the following formula:

$$80\% \times [(\text{Monthly Gross Garage Revenues} - \text{Monthly Taxes}) - (\text{Annual Threshold} + \text{Mercier Increases})]$$

CANAL STREET DEVELOPMENT CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
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3. PROGRAM SERVICE FEES - LEASING ARRANGEMENTS (Continued)

Tenant 800 Canal Street – Hotel Parking Lease (Continued)

- (c) On or before 10<sup>th</sup> day following end of each calendar month, 800 Canal must provide a certified written statement showing Net Garage Revenues generated for each month of the current Lease Year, 800 Canal must keep records for purpose of ascertaining the amount payable as Percentage Rent (for not less than three years following the end of each Lease Year)

For the year ended December 31, 2010, Percentage Rent was \$228,673 For the period January 1, 2011 through September 1, 2011, Percentage Rent was \$178,905

- (iii) Capital Improvement Fund Deposits Tenant pays the lesser of (i) \$2,000 or (ii) Net Garage Revenues less Fixed Minimum Rent and expenses incurred by 800 Canal in the operation and maintenance of the garage (but not management fees paid to garage operator)

For the year ended December 31, 2010, Capital Improvement Fund Deposits was \$24,000 For the period January 1, 2011 through September 1, 2011, Capital Improvement Fund Deposits was \$16,000.

- (3) Tenant Improvements The Partnership may reimburse itself for the tenant improvements, as defined, from the capital improvements fund for the entire cost of the improvements. In addition, the Partnership may use percentage rent (see above) if the capital improvement funds are insufficient
- (4) Operating Costs and Insurance Premiums In addition to fixed minimum rent and percentage rent, the Partnership shall pay monthly to CSDC its proportionate share, as defined, of all costs incurred by CSDC in maintaining, repairing, operating and insuring the leased premises
- (5) Utilities. The Partnership shall pay all utilities required, used or consumed in the leased premises

Tenant Lease – Chifici Enterprises, Inc d/b/a Deanie's Seafood

In early 2000, CSDC entered into a lease with Chifici Enterprises, Inc , d/b/a Deanie's Seafood for the operation of a restaurant with ancillary bar, and catering facility, which lease was amended by that Amendment to Lease dated effective as of April 1, 2007

The primary terms of the lease is for ten years to commence the earliest of (i) 120 days following the Tenant's receipt of permits for Tenants Improvements, or (ii) the date the Tenant opens for business (as determined by the date of Tenant's Certificate of Occupancy or actual opening, whichever first occurs), or (iii) 180 days after the effective date of the lease (February 17, 2000) The latter option applied and the lease became effective on August 15, 2000 Deanie's has three options to extend the term for five years each and a fourth option to extend the term for two additional years. The term will include all renewal or extension terms that become effective by reason of the Tenant's exercise of an option

CANAL STREET DEVELOPMENT CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
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3 PROGRAM SERVICE FEES - LEASING ARRANGEMENTS (Continued)

Tenant- Chifici Enterprises, Inc. d/b/a Deanie's Seafood (Continued)

- (1) Fixed Rent: During the primary term, the tenant shall pay landlord as fixed rent for the leased premises the sum of:

<u>Years</u>	<u>Base Monthly Rent</u>	<u>Fixed Annual Rent</u>
1 – 4	\$ 10,000	\$ 120,000
5 – 8	12,000	144,000
(through August 31, 2008 only)		
Sept 1, 2008 – Year 10	15,000	180,000

Option Term Rent: Fixed Rent during the option term shall be adjusted in accordance with increases in the Consumer Price Index.

Construction Period Rent: During the construction period, the Tenant shall pay the Landlord in an amount equal to \$1,000 per month.

For the years ended December 31, 2011 and 2010, Fixed Rent was \$227,417 and \$195,806, respectively.

- (2) Percentage Rent: None
- (3) Operating Costs. The tenant will pay a proportionate share of all costs incurred by the Landlord for management, operation, maintenance, or insurance of the building.
- (4) Real Estate Tax Expenses The Tenant will also reimburse the Landlord for a proportionate share of expenses for real estate taxes paid, including, but not limited to, all real property taxes, rates, duties and assessments, local improvement taxes, import charges or levies, whether general or special, that are levied, charged or assessed against the Building by any lawful taxing authority, whether federal, state, county, municipal, school or otherwise.
- (5) Security Deposit \$10,000

Billboard Lease

In late 2009, CSDC assumed ownership of a billboard advertising lease effective November 18, 2009. Under the terms of the lease, the lessee shall pay \$1,333 per month to CSDC adjusted by CPI each year. The lease automatically renews from year to year unless one party notifies the other of its election not to renew. For the year ended December 31, 2011 and 2010, fixed rent was \$22,160 and \$16,000, respectively.

CANAL STREET DEVELOPMENT CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
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3 PROGRAM SERVICE FEES - LEASING ARRANGEMENTS (Continued)

Minimum Future Rental Income

Minimum future rental income for the Organization on all direct financing leases as of December 31, 2011 for the years indicated are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2012	\$ 857,920
2013	857,995
2014	858,823
2015	783,126
2016	632,707
Thereafter	<u>41,931,743</u>
	<u>\$ 45,922,314</u>

4. CASH

As of December 31, 2011 and 2010, CSDC has cash book balances in the amount of \$7,052,666 and \$6,850,901, respectively. The bank balances are comprised of the following

	<u>2011</u>	<u>2010</u>
Demand deposits, per bank statements	\$ 7,053,488	\$ 6,848,878
Deposits secured by federal deposit insurance	<u>(525,542)</u>	<u>(383,706)</u>
Total deposits	<u>6,527,946</u>	<u>6,465,172</u>
Pledged Securities	<u>19,352,625</u>	<u>6,907,297</u>
Total unsecured deposits	<u>\$ --</u>	<u>\$ --</u>

5 CONCENTRATION OF CREDIT RISK

Financial instruments that are exposed to concentrations of credit risk consist of cash, accounts receivable and investments. Cash is secured by FDIC insured banking institutions as well as pledged assets as illustrated in Note 4. Funds deposited by CSDC were insured by the Federal Deposit Insurance Corporation up to a maximum of \$250,000 as of December 31, 2011 and December 31, 2010. Additionally, the FDIC's Temporary Account Guarantee Program provides unlimited coverage for non-interest bearing checking accounts through December 31, 2012. Receivables are principally with tenants who operate a hotel, apartment complex, and garage. Tenants also sublease space for restaurants and retail establishments. Regular collection efforts generally result in all rents due to Canal Street Development Corporation collected timely, however, anything that would interrupt the usual course of business activity could affect the collection of rent. CSDC does not use an allowance for doubtful accounts since historically collection of receivables has not been at risk. As of December 31, 2011, CSDC did not have significant concentrations of credit risk.

CANAL STREET DEVELOPMENT CORPORATION  
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**6 OFFICE RENT**

The City of New Orleans entered into a lease for office space on behalf of CSDC. The lease is for a term of thirty-six months, ending on May 31, 2012. Monthly rent \$2,826 per month through May 31, 2011, and \$2,904 per month through May 31, 2012. The monthly rent is split between CSDC and two other parties. Rent expense for the year ended December 31, 2011 and 2010 was \$11,089 and \$11,546, respectively.

Future minimum lease payments by CSDC are as follows

<u>Year Ending December 31,</u>	<u>Amount</u>
2012	\$ 4,841

**7 LEASE EXPENSES**

Effective February 17, 2000, Canal Street Development amended and restated the lease between itself and Mercier Realty and Investment Company for lease of the ground under a portion of CSDC's properties at 800 Iberville and ground under Deanie's leased premises. The lease calls for payment of

- (1) Fixed rent adjusted annually for CPI for the Hotel Parking Garage which is located in part on land owned by Mercier Realty and Investment Company. Monthly fixed rent was \$9,992 from January 2011 to July 2011 and \$10,261 from August 2011 to December 2011.
- (2) 3% of the excess of annual net sales on the Hotel Parking Garage premises (exclusive of parking charges) over \$2,420,000. Currently, there are no income-producing entities under the garage lease to qualify for percentage rent calculation.
- (3) In lieu of percentage rent described above, CSDC pays additional rent calculated at 37.5% of base commercial rent collected by CSDC from Deanie's for the ground under Deanie's leased premises. Monthly fixed rent was \$7,107.
- (4) Fixed rent adjusted annually for CPI, up to 7% per year, for use of rear ramp of the Garage. Monthly rent is \$145.

For the years ended December 31, 2011 and 2010, lease expense was \$208,293 and \$195,071, respectively.

Future minimum lease payments under the Mercier lease are as follows

<u>Year Ending December 31,</u>	<u>Amount</u>
2012	\$ 122,997
2013	122,997
2014	122,997
2015	122,997
2016 and beyond	<u>563,736</u>
	<u>\$ 1,055,724</u>

CANAL STREET DEVELOPMENT CORPORATION  
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**8 COOPERATIVE ENDEAVOR AGREEMENT (CSDC/DDD/City of N O )**

**Description of the Project:**

The Canal Street Development Corporation (CSDC), together with the Downtown Development District (DDD) and the City of New Orleans (City) are sponsors of certain capital improvements to Canal Street from Claiborne Avenue to the Mississippi River. These capital improvements include repaving sidewalks, landscaping and generally contributing to the overall beautification of the Canal Street corridor.

In order to define and coordinate the rights and responsibilities of the co-sponsors of the project, CSDC, DDD and the City entered into a Cooperative Endeavor Agreement setting forth their respective financial obligations in connection with the project.

In order to finance the proposed capital improvements, the Louisiana Public Facilities Authority, a public trust and public corporation of the State of Louisiana agreed to lend CSDC the proceeds of certain revenue bonds in the aggregate principal amount of \$9,680,000. The issuance date was September 25, 2002.

In 2004, the City of New Orleans entered into an \$11.5 million bond issuance, paying CSDC's remaining debt on the original issuance. Under the terms of the Cooperative Endeavor Agreement, CSDC and the DDD agreed to assume responsibility for repayment of the debt, with CSDC agreeing to make debt service on the bond issuance. CSDC has not been required to pledge assets, nor were they required to pledge future rents. The Cooperative Endeavor Agreement states payments will be made by CSDC provided cash flows are sufficient in any given year. Ultimately, the responsibility for payment of the debt lies with the City of New Orleans in the event that CSDC cannot make the payments.

The DDD has agreed to be responsible for payments on \$2,000,000 of the debt by payment to or reimbursement to CSDC, or approximately 17.39% of each debt service payment as of December 31, 2011 and 2010.

**Financial Obligation of Canal Street Development Corporation**

Under the terms of the Cooperative Endeavor Agreement, CSDC agrees to

- (1) make available to the City certain funds on hand in the amount of \$300,000 toward Project Costs,
- (2) make payments to the City Bond Trustee for all of the bond debt service on the City Bonds (provided that if CSDC's revenues are insufficient to make all or part of these debt service payments or CSDC's payments toward bond debt service exceed \$850,000 during any calendar year, then DDD's obligation to make up the \$300,000 of debt service payments annually to the City Bond Trustee shall become effective,

CANAL STREET DEVELOPMENT CORPORATION  
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8 COOPERATIVE ENDEAVOR AGREEMENT (CSDC/DDD/City of N O ) (Continued)

Financial Obligation of Canal Street Development Corporation: (Continued)

- (3) pay the DDD's portion during any calendar year where the DDD's tax revenues are insufficient or have not yet been collected to permit DDD to timely pay its obligations,
- (4) direct the \$500,000 made available by the City to be used solely to pay a portion of the Project Costs

9. COOPERATIVE ENDEAVOR AGREEMENT (CSDC/City of N.O ).

On January 13, 2009, and subsequently amended June 16, 2009 and January 13, 2011, the Canal Street Development Corporation (CSDC) and the City of New Orleans entered into a Cooperative Endeavor Agreement to renovate and restore the building under the Saenger Theatre Renewal Project. The State of Louisiana has conditionally committed to providing the City with Disaster Community Development Block Grant (Disaster-CDBG) dollars to implement the Saenger Theatre Renewal Project. The Cooperative Endeavor Agreement was made and entered into to govern the transfer of Disaster Community Development Block Grant funding to CSDC to assist in implementation of the project and/or authorize CSDC as a sub-recipient for Disaster-CDBG funds. Under the terms of the agreement, the City agrees to provide \$15,000,000 to CSDC for the reimbursement of up to \$3,190,000 of pre-development costs advanced in connection with the project, acquisition of 1101 Canal Street which abuts walls with the Saenger Theatre, and implementation and oversight of the project. The primary purpose of the 1101 Canal Street acquisition is to expand the footprint of Saenger Theatre and rehabilitate the building for commercial use.

Description of the Project

The Saenger Theatre Renewal Project is a Special Economic Development Activity that provides for the rehabilitation of a privately-owned commercial building whose ownership will be transferred to the City via CSDC as part of a public-private arrangement with a loan and leasehold structure that will be entered into among the current owner of the Saenger Theatre, CSDC, the developer of the Project, the future operator of the Saenger Theatre, both of which are affiliates of the current owner of the Saenger Theatre, and other parties. The Cooperative Endeavor Agreement states that CSDC will take ownership of the Saenger Theatre, fund a portion of the Project through the CDBG Project Funding, as obligated pursuant to the Public-Private Arrangement, and coordinate the scope of work to be performed at the identified property with the appropriate City of New Orleans departments, including, but not limited to the Mayor's Office, Office of Recovery and Development Administration and designated program manager, City Planning Commission, Public Works, Sewerage and Water Board; Regional Transit Authority, Emergency Management, Historic District Landmarks Commission, and New Orleans Redevelopment Authority.

CANAL STREET DEVELOPMENT CORPORATION  
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9. COOPERATIVE ENDEAVOR AGREEMENT (CSDC/City of N O ). (Continued)

Description of the Project (Continued)

Under the terms of the Cooperative Endeavor Agreement, CSDC agrees to:

- 1) administer and coordinate the infrastructure planning, complex project management, renovation, redevelopment, and public relations, associated with the renovation and development of the Saenger Theatre Renewal Project in downtown New Orleans.
- 2) oversee the restoration and improvement of the historic public areas of the venue and the addition of an expanded stage house and support facilities to accommodate touring Broadway productions
- 3) function as the administrator of the \$15,000,000 Disaster-CDGB funds.
- 4) cooperate with the City and any other contractors providing project-related services to City as reasonably required for the Project

10. COOPERATIVE ENDEAVOR AGREEMENT (CSDC/New Orleans Building Corporation).

In October 2011, the CSDC entered into a Cooperative Endeavor Agreement with New Orleans Building Corporation ("NOBC") to terminate the World Trade Center Lease in exchange for certain rights. The World Trade Center was originally leased by the New Orleans International Trade Building Corporation. The lease was later amended and the World Trade Center Lease was assumed by the NOBC in May 2001. The NOBC, World Trade Center, and the City of New Orleans desire to provide for the termination of the World Trade Center lease and the assumption of certain other assets. These assets include a lease between the World Trade Center of New Orleans, Inc. and the International River Center (the Hilton Lease). The Hilton lease includes the leasing of the parking garage building located adjoining the World Trade Center Building and consists of 1,000 self-car parking spaces (the Garage). In order to terminate the lease agreement, \$2,295,378 is due to the World Trade Center of New Orleans, Inc. The CSDC agrees to transfer \$2,000,000 to NOBC for the sole purpose of paying a portion of the \$2,295,378 under the termination of the lease agreement and NOBC agrees to transfer the \$2,000,000 and \$295,378, representing the remaining balance, to the World Trade Center of New Orleans, Inc.

In consideration for the transfer of the \$2,000,000 by CSDC, NOBC grants to CSDC the right and authority to operate the Garage on a day-to-day basis, including the right to collect all revenues generated by the Garage, comprised currently of rents due from the Hilton Tenant, and the right to perform one or more audits of the Garage operations. NOBC shall maintain all liability

CANAL STREET DEVELOPMENT CORPORATION  
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10. COOPERATIVE ENDEAVOR AGREEMENT (New Orleans Building Corporation)  
(Continued)

for all landlord obligations under the Hilton Lease from and after the effective date of the termination of the lease agreement. CSDC agrees that upon receipt of revenues from the Hilton Lease, it will deposit all such Garage revenues in a segregated account. CSDC shall transfer to NOBC the first \$250,000 of all Garage revenues received during each Hilton lease year within 15 business days following the end of such Hilton lease year. The excess of Garage revenues received in each Hilton lease year over the \$250,000 (NOBC portion) shall be applied by CSDC towards payment of the indebtedness until the indebtedness is paid in full. As of December 31, 2011, the balance due to CSDC from NOBC is \$2,000,000.

In addition to the above agreement, in November 2011, the Canal Street Development Corporation (CSDC) and the New Orleans Building Corporation ("NOBC") entered into a second Cooperative Endeavor Agreement in which CSDC agrees to provide standard accounting services and general administrative services. The NOBC will pay the CSDC a monthly rate of \$1,667 to perform the contracted services. The maximum sum payable under the agreement is \$20,000. The term of the agreement is for one year.

11. DUE TO/FROM THE CITY OF NEW ORLEANS

In October 2001, the garage at 931 Bienville was sold at public auction for \$506,000. The Act of Sale on the garage was effective in February 2002. An Ordinance of the City of New Orleans declared that the proceeds from the sale were to be held in the Capital Fund to be used for CSDC purposes. These proceeds will be used to satisfy CSDC's out-of-pocket funding of the Capital Street Improvements Project, as described above. As of December 31, 2011 and 2010, the total due from the City was \$506,000 and \$506,000, respectively.

The City of New Orleans paid operating expenses on behalf of CSDC in the amount of \$175,763 for the year ended December 31, 2011. The operating expenses included salaries and related benefits. As of December 31, 2011, \$63,716 is due to the City of New Orleans for the payment of operating expenses.

During the year ended December 31, 2010, the City of New Orleans paid operating expenses on behalf of CSDC in the amount of \$162,930. The operating expenses included salaries and related benefits, office supplies, telephone, legal expenses, office rent and other miscellaneous operating expense. As of December 31, 2011, \$72,795 was due to the City of New Orleans for the payment of operating expenses.

CANAL STREET DEVELOPMENT CORPORATION  
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12. LOAN RECEIVABLE

On March 15, 2009, and subsequently amended June 2009, August 2009, October 2009 and April 2011, CSDC, Saenger Theatre Partnership, Ltd (STP), and Saenger Theatre Redevelopment Company, L.L.C (STRC) entered into a Pre-Development Cost Agreement. Under the amended agreement, CSDC agrees to advance up to \$1,150,000 to the Saenger Theatre Redevelopment Company, L.L.C to pay certain pre-development costs related to the restoration and renovation of the Saenger Theatre (the "Project") In addition, CSDC has obtained the authority to utilize \$15,000,000 of Community Development Block Grant funds to help finance the Project, of which CSDC has used approximately \$1,800,000 for the acquisition of the 1101 Canal Street property

Under the terms of the Pre-Development Cost Agreement, CSDC, STP and STRC agree to

- (1) work together to negotiate and execute definitive documents to formalize the business and legal agreements in connection with the Project, and preparation of construction plans and specifications and other documents to enable STRC to let out for bid the construction contract pertaining to the Project
- (2) negotiate in good faith with a view toward finalizing and executing the transaction documents noted above as soon as reasonably possible, including, without limitation, the lease of the Saenger Theatre by STP to STRC, the sublease of the Saenger Theatre by STRC to an affiliate of STP and the agreement pursuant to which STP will convey the Saenger Theatre to CSDC subject to the lease and the sublease. The transaction documents were finalized effective December 29, 2011

Under the terms of the Pre-Development Cost Amended Agreement, the Pre-Closing Construction Advance, Pre-Closing Advances and Pre-Development Cost loans made by STP or CSDC shall be deemed loans and bear interest at a rate of 0.72% per annum At December 31, 2011 and 2010, the loan receivable balance related to pre-development costs and construction advances was \$-0- and \$1,834,794, respectively At December 31, 2011 and 2010, accrued interest receivable balance was \$-0- and \$11,755, respectively.

On December 29, 2011, CSDC entered into a loan agreement with the Saenger Aggregator Leverage Lender, LLC (the Lender) in which CSDC loaned the Saenger Aggregator Leverage Lender, LLC \$13,156,422 in Community Development Block Grant funds so that the Lender may use the loan proceeds to finance the Saenger Theatre Redevelopment Project Interest shall be payable quarterly in arrears on the 20<sup>th</sup> day of each January, April, July and October, commencing on January 20, 2012. Payments of principal and interest shall be payable out of available cash flow, determined in the CSDC's sole discretion, up to \$305,395 (each, a "quarterly payment"), with the entire unpaid balance of principal and interest payable on October 1, 2041 Interest shall accrue on the outstanding principal amount at the fixed rate of 1% per annum At December 31, 2011, the loan receivable balance was \$13,156,422

CANAL STREET DEVELOPMENT CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010

13. PROPERTY DONATION:

On December 29, 2011, the Saenger Theatre Partnership donated the building known as the Saenger Theatre, located at 1111 Canal Street in New Orleans, Louisiana to CSDC. The property consists of 28,413 feet of land with a market value of \$2,699,000 and 76,431 square feet of floor area or 2,415,000 cubic foot building with a market value of \$4,680,000. Total fair market value of the building and land at December 31, 2011 is \$7,379,000.

14. NET ASSETS:

Temporarily Restricted Net Assets:

The donated real estate (D.H. Holmes Building, D.H. Holmes Annex, and parking garage) net of depreciation are classified as temporarily restricted by the act of donation between D.H. Holmes and CSDC. At December 31, 2011 and 2010, temporarily restricted net assets totaled \$5,505,899 and \$5,711,433, respectively.

Unrestricted-Board Designated Net Asset:

The Board designated unrestricted funds for the following purposes:

\$ 100,000	Designated in 2004 for use in the City's marketing campaign
<u>80,666</u>	Remaining funds from the 2001 designation for special purposes
<u>\$ 180,666</u>	Total board-designated unrestricted funds

15. NET ASSETS RELEASED FROM RESTRICTIONS:

Net assets are released from temporary donor restrictions by satisfying the restricted purpose

16. SUBSEQUENT EVENTS

Canal Street Development Corporation loaned \$800,000 to the Saenger Theatre Management, LLC. The purpose of the loan is for additional financing for the Saenger Theatre Redevelopment Project. The promissory note is dated December 29, 2011. The funds were not transferred to the Saenger Theatre Management, LLC until subsequent to the year end. Interest shall be payable quarterly in arrears on the 20<sup>th</sup> day of each January, April, July and October, commencing on January 20, 2012. Payments of principal and interest shall be payable out of available cash flow, determined in the CSDC's sole discretion. The entire principal amount of the note, including all accrued and unpaid interest, is due on October 1, 2041. Interest shall accrue on the outstanding principal amount at the fixed rate of 1% per annum.

CANAL STREET DEVELOPMENT CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010

16. SUBSEQUENT EVENTS (Continued)

Canal Street Development Corporation has evaluated subsequent events through May 4, 2012, the date which the financial statements were available to be issued

17. RECLASSIFICATION

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

CANAL STREET DEVELOPMENT CORPORATION  
SUPPLEMENTARY INFORMATION  
STATEMENTS OF FUNCTIONAL EXPENSES  
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<b>PROGRAM EXPENSES:</b>		
Consulting fees	\$ 19,899	\$ 19,680
Debt service	522,306	498,696
Depreciation expense	262,805	252,805
Lease expense	208,293	195,071
Taxes and Insurance	25,166	-
Professional fees	<u>18,964</u>	<u>50,967</u>
 Total program expenses	 \$ <u>1,057,433</u>	 \$ <u>1,017,219</u>
 <b>GENERAL AND ADMINISTRATIVE EXPENSES:</b>		
Administrative	\$ 5,614	\$ 4,797
Employee benefits	34,867	21,789
Meals and Entertainment	-	508
Miscellaneous	125	1,328
Office rent	11,089	11,546
Office supplies	570	1,220
Payroll taxes	7,485	8,520
Rental equipment	-	229
Salaries	97,726	111,508
Telephone	<u>1,610</u>	<u>2,629</u>
 Total general and administrative expenses	 \$ <u>159,086</u>	 \$ <u>164,074</u>

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HOGAN & MAHER, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

May 4, 2012

Canal Street Development Corporation  
New Orleans, Louisiana

We have audited the financial statements of Canal Street Development Corporation, as of and for the year ended December 31, 2011, and have issued our report thereon dated May 4, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of the Canal Street Development Corporation (CSDC), a component unit of the City of New Orleans as of and for the year ended December 31, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered CSDC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the CSDC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the CSDC's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Canal Street Development Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*

This report is intended solely for the information and use of the Legislative Auditor, audit committee, management, and others within the organization and grant awarding agencies and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document

*Duplantier, Hrapmann, Hogan & Maher, LLP*

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INDEPENDENT AUDITORS REPORT ON COMPLIANCE  
WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND  
MATERIAL EFFECT ON EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A- 133

May 4, 2012

Canal Street Development Corporation  
New Orleans, Louisiana

Compliance

We have audited the compliance of Canal Street Development Corporation (CSDC), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011. The CSDC's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the CSDC's management. Our responsibility is to express an opinion on the CSDC's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A- 133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the CSDC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the CSDC's compliance with those requirements.

In our opinion, the CSDC complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs the year ended December 31, 2011.

Internal Control Over Compliance

The management of the CSDC is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the CSDC's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the CSDC's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Legislative Auditor, audit committee, management, and others within the organization and grant awarding agencies and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

*Duplantier, Hrapmann, Hogan & Maher, LLP*

CANAL STREET DEVELOPMENT CORPORATION  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2011

<u>Program Title</u>	<u>Grant Number</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<u>MAJOR FEDERAL AWARDS</u>			
Funds passed through the State of Louisiana			
<u>Department of Housing and Urban Development</u>			
Community Development Block Grant	ILTR-00088	14 228	\$ <u>13,156,422</u>
TOTAL MAJOR FEDERAL AWARDS			\$ <u><u>13,156,422</u></u>

CANAL STREET DEVELOPMENT CORPORATION  
NOTES TO SCHEDULE OF EXPENDITURES  
OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2011

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Schedule of Expenditures of Federal Awards of the Canal Street Development Corporation has been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. Expenditures are recognized when incurred.

**CANAL STREET DEVELOPMENT CORPORATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

**SUMMARY OF AUDITOR'S RESULTS**

- 1 The opinion issued on the financial statements of Canal Street Development Corporation for the year ended December 31, 2011 was unqualified
- 2 The audit disclosed no instances of noncompliance which were material to the financial statements of Canal Street Development Corporation
- 3 An unqualified opinion was issued on compliance for the major program of the Canal Street Development Corporation for the year ended December 31, 2011
- 4 Canal Street Development Corporation had one major program as follows:

U S Department of Housing & Urban Development- Funds passed through the State of Louisiana- Community Development Block Grant	<u>Expenditures</u>  <u>\$ 13,156,422</u>
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- 5 Type A programs are those programs with Federal awards expended during the current year ended December 31, 2011 exceeding \$300,000.
- 6 Canal Street Development Corporation did not qualify as a low-risk auditee
- 7 Finding required to be reported under Generally Accepted Government Auditing Standards:  
None